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INFO RUEHZO/AFRICAN UNION COLLECTIVE PRIORITY
RUEHBJ/AMEMBASSY BEIJING PRIORITY 0052
RUEHGP/AMEMBASSY SINGAPORE PRIORITY 0001
RUEHKO/AMEMBASSY TOKYO PRIORITY 0005
RUEHGZ/AMCONSUL GUANGZHOU PRIORITY 0001
RUEHHK/AMCONSUL HONG KONG PRIORITY 0001
RUEHGH/AMCONSUL SHANGHAI PRIORITY 0006
RUEHSH/AMCONSUL SHENYANG PRIORITY 0001
RHEHNSC/NSC WASHDC PRIORITY
RHMFISS/CJTF HOA PRIORITY
RUEHIN/AIT TAIPEI PRIORITY 0005

C O N F I D E N T I A L SECTION 01 OF 03 KHARTOUM 000119

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SUBJECT: CHINA IN SUDAN: RISING DRAGON OR PAPER TIGER?

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Classified By: CDA Cameron Hume, Reason: Sections 1.4 (b) and (d)

11. (C) Summary: China has quickly become Sudan's most important market, absorbing nearly 70 percent of its total exports in 2004, and 96 percent of its oil exports in 2005. Chinese investment and immigration have risen sharply in the past five years, especially in Khartoum, creating a kind of Chinatown on the Blue Nile. On the eve of President Hu Jintao's expected visit to Sudan in early February, questions remain about what kind of friend China actually is, and about what impact its economic dominance is having on Sudanese society. More importantly, the import of China's long-term influence in Sudan seems increasingly open to debate. The rising dragon may turn out to be a paper tiger. End Summary.

China's Economic Dominance in Sudan

12. (SBU) "Create the new and strive beyond!" exhorts a banner -- in Chinese -- above the entrance to Sudan Hotel, on a tree-lined stretch of the Blue Nile in central Khartoum. Originally built for wealthy European tourists, the hotel now houses the senior management of the China National Petroleum Corporation (CNPC). The banner -- and the hotel -- symbolize China's growing demand for oil, and its increasing influence over Sudan's economy. According to the most recent Bank of Sudan figures, Sudanese exports to China topped USD 2.5 billion in 2004, or nearly 67 percent of the country's total exports; preliminary data suggests these figures may have risen as much as 70 percent in 2005, to USD 4.3 billion. (Note: By contrast, Japan -- Sudan's second largest export market -- accounted for only 11 percent of the country's exports in 2004, and probably even less in 2005. End note) Oil comprised 83 percent of Sudan's total exports in the first half of 2005, and almost all of it -- 96 percent -- went to China.

13. (C) China is also one of the largest foreign investors in Sudan, and one of its largest sources of foreign labor. Though the dollar value of Chinese investment lags behind totals from Saudi Arabia and the United Arab Emirates, China

leads in the number of individual projects, according to the Ministry of Investment. The number of registered Chinese companies in Sudan jumped from 69 in 2000 to 124 in 2005. But the number of registered Chinese workers rose even more sharply over the same period, from 8,300 in 2000 to nearly 24,000 in 2005, based on Ministry of Interior figures. Moreover, according to Professor Ali Abdalla Ali of the Sudan University of Science and Technology (protect), as many as 40,000 more unregistered Chinese are working on oil exploration or heavy construction projects across the country with the tacit permission of local authorities. According to one popular story in Khartoum, there are now over 100,000 Chinese in Sudan -- many of whom, according to the rumor, the Chinese government released from prison to work in Sudanese oilfields.

What Kind of Friend is China?

14. (C) In reality, more and more Chinese in Sudan work outside the petroleum sector, in service industries catering to the country's growing Chinese community. Khartoum's eastern suburbs are fast becoming a sort of Chinatown on the Blue Nile. Major Chinese companies like ZTE, Huawei, and the Zijing Group have built large compounds not far from the ever-expanding Chinese Embassy, complete with hotels and travel agencies for their expatriate staff. Chinese doctors have established a private hospital specializin in traditional Chinese medicine, and a number of small Chinese supermarkets and restaurants have popped up across the city, openly selling pork and alcohol in defiance of local Shari'a law. "I came here for the money," said one waitress matter-of-factly. "It was better than staying at home in Yantai." Though the shops and dumpling joints are popular with Chinese and Western expatriates alike, most Sudanese

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seem remarkably indifferent to their new Chinese neighbors. The University of Khartoum began offering Chinese language courses four years ago -- with a Chinese-educated Sudanese national as the professor -- but enrollment remains very small. "I wanted to learn Chinese so I could work for a Chinese company," said one former student in the class. "But it doesn't matter if you speak Arabic or Chinese, because the Chinese won't make a Sudanese person a manager. Besides, Chinese was so hard -- now I want to learn English."

15. (C) Politically, of course, Sudan's Government of National Unity (GNU) is anything but indifferent to China; it relies not only on China's increasing demand for oil, but also on its tacit international support on issues like Darfur. "A lot of people in this government turn a blind eye to whatever the Chinese are doing here -- working illegally, smuggling goods, selling alcohol -- because they think they need them," said Professor Ali. "People feel grateful because China helped Sudan drill for oil, even though the Chinese are just helping themselves." More recently, however, some officials in the ruling National Congress Party fault Beijing for not using its veto against UNSC 1706, according to Ali. "They want to know what kind of friend China really is." China also remains a major arms supplier for the Sudanese Armed Forces (SAF), though perhaps as much for economic as political reasons. Given the size of Sudan's oil exports to China, Sudan is one of the few countries that enjoys a trade surplus with China -- some 2 billion dollars in 2004 alone. According to Professor Ali -- who serves as an advisor to the Ministry of Finance -- China has repeatedly tried to persuade Sudan to convert its trade surplus into goods. "Last year they offered to give us 8 billion dollars worth of arms," he said, though he does not know if the Government accepted the offer.

Exporting Corruption

¶6. (C) China's growing economic role in Sudan is starting to raise questions among some Sudanese, especially intellectuals. "It's exactly what the British did here -- classic informal imperialism," said Dr. Magdi el Gizouli (protect), a suave UK-educated medical researcher and prominent member of the Sudanese Communist Party (SCP). Gizouli has recently written eight editorials in the Khartoum daily &Al-Ayam8 examining China's relations with Sudan; the articles created "a bit of a stir" when published, Gizouli admitted, but that seems to have been his primary goal. "No one in Sudan wants to think of themselves as being re-colonized, especially by China." Gizouli laughed at the irony of a Sudanese Communist criticizing a nominally Communist state as imperialist, but quickly added that he didn't believe China had ever really been communist -- and that the Chinese Communist Party had never had good relations with the party in Sudan. "China is here to take our oil, but what are they giving us in return? The British at least gave us Western ideas. The Chinese just give money to a few people in the Government who are already very rich."

¶7. (C) Professor Ali agreed, charging that China was actually "exporting corruption" to Sudan. "We have been brought up with British law and Islamic justice, but now the Chinese are destroying it," he moaned. "They send government officials to China in business class, show them the Great Wall, and give them expensive gifts. And no one wants to talk about it because their mouths are full of money." Chinese-style corruption does seem to be making inroads in Sudan. Khartoum's property market has become inflated, Ali charged, because local Chinese managers have started "padding prices." The contracting manager asks the seller to write the contract for a higher price than the actual sales price, and reports the higher figure to the company; he then keeps the difference, or shares it with his boss. Worse, said Ali, as more and more Chinese in Sudan enter the retail sector -- typically selling Chinese-made goods they smuggled into the country -- they drive out local merchants who cannot compete on price. "Sudanese always used to go to the Canton Fair, but now they don't, because they simply can't compete with a

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Chinese merchant who hasn't paid customs duties." There has been no talk of a boycott of Chinese goods, Ali admitted, but most Sudanese prefer to buy Western goods simply because the quality is better. "Of course we can't buy American goods because of the sanctions, so we really don't have much choice," he joked.

Comment: Dragon or Tiger?

¶8. (C) Professor Ali may be overstating his case, but China's strong economic influence in Sudan no doubt stems at least in part from the absence of U.S. economic competition. More poignantly, China's increasing investment in Sudan and its economic dominance here come not only in spite of U.S. sanctions, but from China's thirst for new sources of oil to fuel its own economic expansion -- an expansion funded by U.S. investors and U.S. consumers. On the eve of President Hu Jintao's expected visit to Sudan in early February, it seems too early to say what kind of impact China will have on Sudan over the long term. If the broader international environment changes, or if domestic resentment continues to grow, China may seem less like a rising dragon and more like a paper tiger.
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